Historical Overview

Michigan's banks operate in a fast-changing financial services environment under a law that was enacted 30 years ago. Though amended over the years in response to important developments in markets, federal regulations, and the industry, the law's basic structure still reflects banking as it existed almost a third of a century in the past.

In 1969, when Michigan's Banking Code was adopted, banks were protected from competition and their products and pricing were heavily regulated. In the past 30 years, federal limits on product pricing largely have been removed (e.g., Regulation Q, which restricted interest rates that could be paid on savings and time deposits). New products have been developed (e.g., NOW accounts, "sweep" accounts, money market accounts, home equity loans, car and equipment leases). Technological innovations have revolutionized product delivery mechanisms and the way banks communicate internally as well as with each other, with their customers, and with their regulators (ATMs, automated clearing houses, Internet banking, PC and telephone banking, debit cards, Intranets). Banks have acquired new powers (e.g., insurance agency, securities brokerage) and the ability to expand into new markets (e.g., statewide branching, interstate banking, interstate branching).

Banks today face much more and much different competition than in 1969. Removal of local office protections brought banks into unprecedented head-to-head competition with each other in the late 1970's and early 1980s. In 1984, Michigan allowed foreign banks to establish agency offices. In 1985, out-of-state bank holding companies gained the ability to acquire banks in Michigan. In 1995, interstate branching laws allowed Michigan banks to enter markets in other states and permitted out-of-state banks to compete in Michigan's attractive marketplace.

Banks also are facing an array of new competitors, many of which thrive under much less burdensome regulations than banks face. Historically, restrictions on bank activities and pricing left service gaps that were filled by private concerns. Securities houses developed money market mutual funds that attracted depositors unhappy with the restricted rates banks could offer. Insurance interests now offer an array of bank-like services. Mortgage companies sprang up to handle the demand for lower-equity home finance and have blossomed in the current economic boom. Manufacturers offer financing for everything from cars to office copiers.

Regulation of banks has evolved, as well. Bank examiners who routinely counted cash during a bank examination now assess banks' risk management. Once entirely conducted on-site at a bank, much of an examination now consists of off-site reviews and analyses enabled by microcomputer technology and electronic communications.

The Financial Institutions Bureau proposes a modernization of the Banking Code to enable banks to enter the new millenium under a statute that accommodates the changes that have occurred and removes impediments to efficient provision of services to the public.